

Effective Interest Rate (EIR)

The **effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

The **effective interest method** is basis for financial instruments measured at amortised cost. It s a method of allocating interest income or interest expense over the relevant period while calculating the [amortised cost](#) of a financial asset or a financial liability (or group of financial assets or financial liabilities).

Please refer to the section below for further details about:

- [Calculation Technique](#)
- [Challenges](#)
- [Splitting the EIR / Smoothing Effect](#)